LANDER UNIVERSITY

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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September 20, 2006

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

This report on the audit of the basic financial statements of Lander University and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, for the fiscal year ended June 30, 2006, was issued by Elliott Davis, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

LANDER UNIVERSITY
GREENWOOD, SOUTH CAROLINA

CONTENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Richard H. Gilbert, Jr., CPA, Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Lander University (University), a department of the State of South Carolina, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 - 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards, we* have also issued our report dated August 30, 2006 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Elliott Davis, LLC

August 30, 2006

Overview of the Financial Statements and Financial Analysis

Lander University is pleased to present its financial statements for fiscal year 2006. Condensed statements for fiscal years 2005 and 2006 will be presented in this section for comparative purposes. However, the emphasis of discussions about these statements will be on current year data. While maintaining financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research, and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No.34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Colleges and Universities.* These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The University's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's overall finances when considered with non-financial facts such as enrollment levels and condition of the facilities.

In addition, the financial statements contain a statement of net assets and statement of activities for The Lander Foundation, a discretely presented component unit. The Foundation's separately issued financial statements are audited by independent auditors retained by them.

This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present a fiscal snapshot of Lander University. The Statement of Net Assets presents end-of-year data concerning assets (property owned by the University and debts owed by others to the University), liabilities (debts owed to others and funds collected from others prior to the University providing service/goods), and net assets (assets minus liabilities). It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to the University, regardless of when cash is exchanged.

The Statement of Net Assets provides data that identifies the assets available to continue the operations of the University as well as how much the University owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

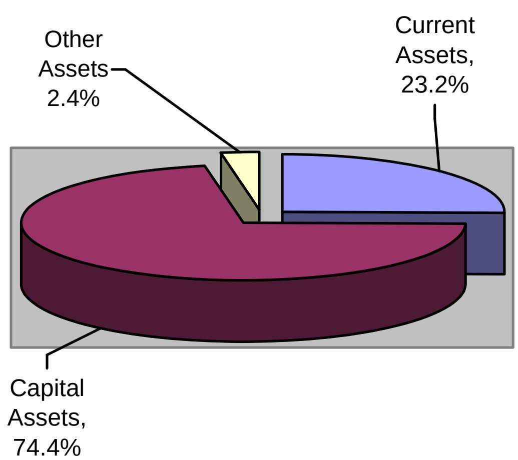
Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is expendable restricted net assets. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic programs and initiatives.

Condensed Summary of Net Assets

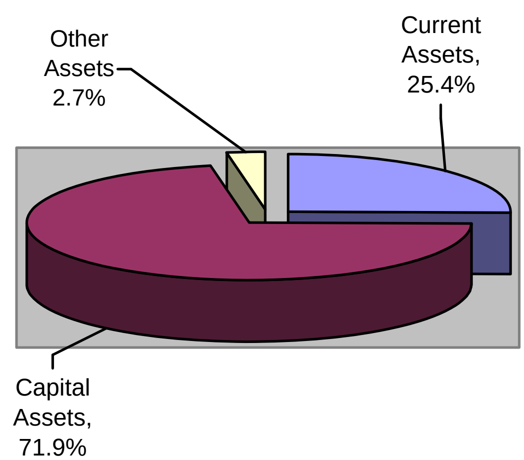
Assets:	2006	2005	Increase/ Decrease	Percent Change
Current assets	$ 16,380,902	$ 15,438,559	$ 942,343	6.10%
Capital assets, net	52,673,101	43,637,960	9,035,141	20.70%
Other assets	1,677,214	1,646,714	30,500	1.85%
Total Assets	70,731,217	60,723,233	10,007,984	16.48%
Liabilities:				
Current Liabilities	3,603,455	4,557,866	(954,411)	-20.94%
Noncurrent Liabilities	19,779,895	12,644,238	7,135,657	56.43%
Total Liabilities	23,383,350	17,202,104	6,181,246	35.93%
Net Assets:				
Invested in capital assets, net of debt	39,008,772	32,470,529	6,538,243	20.14%
Restricted-expendable	7,513,179	6,061,800	1,451,379	23.94%
Unrestricted	825,916	4,988,800	(4,162,884)	-83.44%
Total Net Assets	$ 47,347,867	$ 43,521,129	$ 3,826,738	8.79%

LANDER UNIVERSITY
ANALYSIS OF ASSETS

FY 2006



FY 2005



The total assets of the University increased dramatically by $10,007,984. A review of the Statement of Net Assets will reveal there are several variables, but the increase was primarily due to an increase in net capital assets due to the capitalization of the new residence facility, Centennial Hall, and to the additional cash flow in from an additional institutional general obligation bond. The proceeds from the new 2005D issue, valued at $8,000,000 were mainly used to finish Centennial Hall. A smaller portion of the proceeds is still on hand for additional housing renovation on another facility.

Additionally, capital assets increased due to purchases of moveable equipment and construction projects in progress including the main entrance, the Jackson Library roof, and the renovation/addition to the Grier Student Center

Current liabilities decreased more than 20%, primarily due to more efficient means of reducing year end payables that would normally show in this category. Noncurrent liabilities show a marked increase of $7,135,657 due to the increased debt issued during 2005-2006.

The combination of these elements yields an increase in Net Assets of $3,826,738 or 8.79%.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year as either operating or non-operating activities. All things being equal, a public University's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as non-operating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

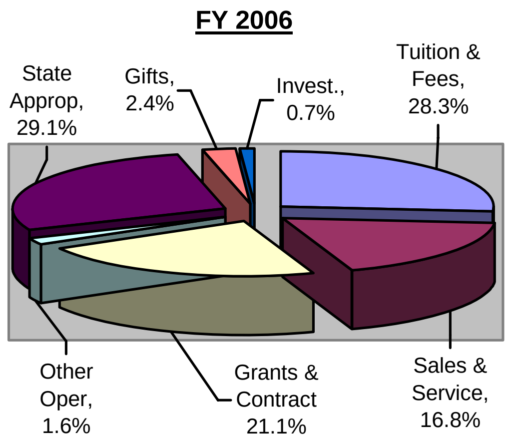
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

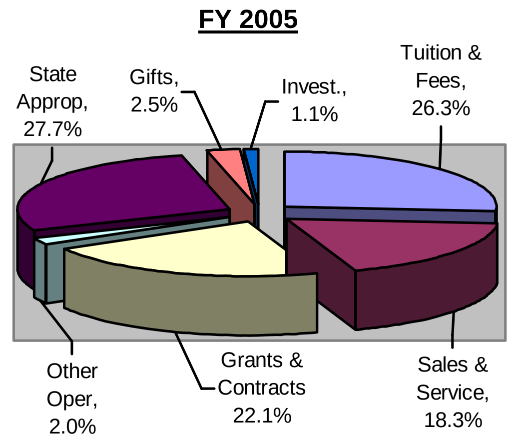
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

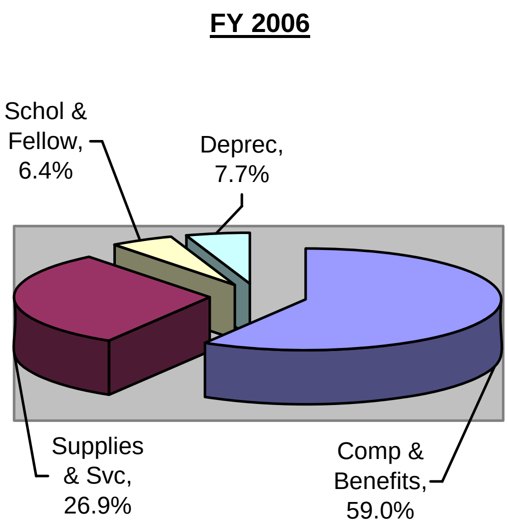
	2006	2005	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees	$ 10,881,314	$ 9,303,955	$ 1,577,359	16.95%
Sales and services	6,795,453	6,488,313	307,140	4.73%
Grants and contracts	8,110,819	7,842,076	268,743	3.43%
Other operating revenues	282,509	725,418	(442,909)	-61.06%
Total operating revenues	26,070,095	24,359,762	1,710,332	7.02%
Operating Expenses:				
Compensation and Benefits	21,748,743	20,459,365	1,289,378	6.30%
Supplies and Services	9,898,325	10,624,476	(726,151)	-6.83%
Scholarships and Fellowships	2,349,206	1,916,714	432,492	22.56%
Depreciation and amortization	2,849,413	1,789,912	1,059,501	59.19%
Total operating expenses	36,845,687	34,790,467	2,055,220	5.91%
Operating loss	(10,775,592)	(10,430,705)	(344,887)	3.31%
Nonoperating Revenues (Expenses):				
State Appropriations	11,166,034	9,828,270	1,337,764	13.61%
State Grants and Contracts	8,767	9,295	(528)	-5.68%
Gifts	903,512	890,258	13,254	1.49%
Investment income	271,137	397,215	(126,078)	-31.74%
Land donated	-	(50,418)	50,418	-100.00%
Gain (loss) on disposal of assets	60	(7,429)	7,489	-100.81%
Interest expense	(458,039)	(76,845)	(381,194)	496.06%
Total nonoperating revenues (expenses)	11,891,471	10,990,346	901,125	8.20%
Income before other revenues, expenses, gains, losses	1,115,879	559,641	556,238	99.39%
Other Revenues:				
Research Infrastructure Bond	994,521	-	994,521	100.00%
Capital Improvement Bonds	1,716,338	469,550	1,246,788	265.53%
Change in Net Assets	3,826,739	1,029,191	2,797,548	271.82%
Net Assets, Beginning of Year	43,521,129	42,491,938	1,029,191	2.42%
Net Assets, End of Year	$ 47,347,867	$ 43,521,129	$ 3,826,738	8.79%

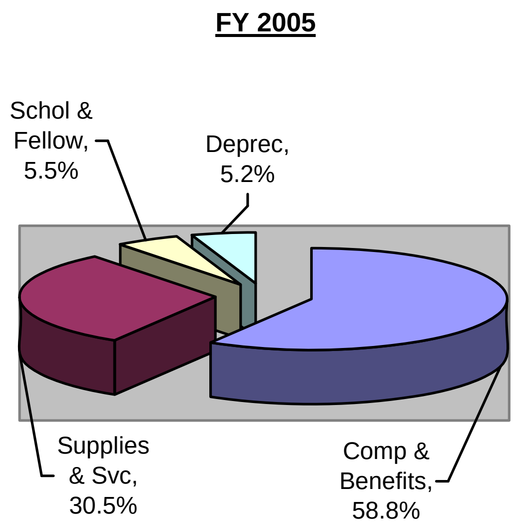
LANDER UNIVERSITY
REVENUE ANALYSIS





LANDER UNIVERSITY
EXPENDITURE ANALYSIS





The Condensed Summary of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in Net Assets at the end of the year. Some highlights of the information presented in this Summary follow.

Tuition rates increased in fiscal year 2006 by 12.5% in an effort to offset stagnant General Fund Appropriations. The University continues to rely more heavily on tuition and fees and other revenues to cover operational costs. During fiscal year 2006, State appropriations represented approximately 29.1% of the University's total current operating revenues compared to 27.7% in 2005. This increase in percentage is due to a one year appropriation of deferred maintenance dollars of slightly under $2,000,000, of which $994,000 was derived from a statewide bond sale. With these funds the University was able to completely re-roof both the Cultural Center and Grier Center including the Commons and skylights, as well as the Jackson Library.

Scholarship expense is the portion of student financial aid revenue that flows through the University and is returned to the student in the form of excess aid. The expense is offset by a like amount of revenue. The sum of the expense and the scholarship allowance equals the total amount of financial aid from resources already recognized as revenue by the University. Examples of this revenue are Pell Grants, Life Scholarships, Lander Foundation Scholarships, and Institutional Scholarships.

Scholarship Expense increased $432,491 in FY 2006. More dollars were budgeted for scholarships in FY 2006 to reflect the increase in tuition as well as additional emphasis placed on increasing the scholarship budget. In addition, The Lander Foundation through their Comprehensive Campaign realized an increase in both their endowed and funded scholarship giving. These two occurrences mean students were awarded more dollars to pay for tuition and fees and thus received an increase in excess aid checks over the previous year.

There are notable uses of funds available to the University. Sources of which are funds held in reserve for capital needs and increased revenues particularly those revenues from $1.7 million in Capital Improvement Bonds in addition to the previously noted appropriations made available to the University.

Significant structural improvements were made to the Grier Student Center utilizing a good portion of $3 million dollars of the 2000 Capital Improvement Bond distribution. These improvements included building stabilization with micro piles, brick replacement, HVAC replacements and plumbing replacement.

The physical plant on the northwest side of the campus was completed and opened at a cost of slightly more that one million dollars. This building now houses all of Facilities Operations in one location to include the Offices of Physical Plant and Engineering Services.

Centennial Hall, a 90,000-square-foot residence hall, was opened in January, 2006 and houses 300 students. The building, located on the corner of Sproles and Barksdale streets, features furnished suites of four single occupancy rooms sharing a common living area and bathroom. Study rooms and meeting space are provided on each floor and a laundry facility is located on the ground floor. Wireless internet access and cable television is provided. McMillan Smith and Partners led the design team with Triangle Construction Company serving as General Contractor. The opening of this housing facility allowed the university to bring residential students back on campus by replacing leased student housing. Coleman Hall on Hampton Street, which the university owns, is scheduled for closure in Fall 2006.

A communications ductbank was completed and now links Facilities Operations and Centennial Hall to the rest of the campus and the outside world.

The Athletics area purchased a new grooming machine that will maintain all grass playing surfaces such as the soccer field and baseball fields. Lander's tennis courts located behind the Grier Student Center were resurfaced.

Spanning the ravine between the new residence hall and the soon to be renovated dining facility is a pedestrian bridge. The prefabricated bridge links the traditional facade of the residence hall and the more modern construction of the student center. It will be opened for use at the completion of the dining hall renovation. The site features curving brick walls and patios to serve as a gathering place on either end. This well lit bridge overlooks a newly cleared ravine featuring a natural shelf that when completed should provide a restful shady gathering area for faculty, staff, and students.

Phase I of the new entrance boulevard was completed. The boulevard includes curbs, sidewalks, and bicycle lanes. In order to have a cleaner landscape, utilities have been relocated underground. Funding for this project has been earmarked from prior year carry-forward and grant funds secured from outside sources.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows which presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows for capital and related financing activities and with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Economic Outlook

The University is not aware of any facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during fiscal year 2007.

Even with a relatively flat funded year in 2006, the University was able to generate a modest increase in Net Assets. The University anticipates fiscal year 2007 will not be substantially different from the last. The General Assembly partially funded a 3% pay increase for state employees and agreed to fund the increase in health insurance effective January 1, 2006. A tuition increase of 7.4% for fiscal year 2007 was adopted by the Board of Trustees and Fall enrollment is projected to realize a modest increase. These two factors should give the University the resources to maintain its ability to react to internal and external issues that may arise.

The University is anxiously awaiting the completion of the current numerous projects underway.

Plans have been made to revitalize Lide student housing located on the west side of Willson Street across from Horne Arena. A new EST-3 fire alarm and sprinkler system will be installed, the facades will be replaced with new siding and stairwell entrances will be upgraded. Funding for this project is provided by the remaining $3 million of the $8 million institutional bond issued in December 2005.

Plans are underway for construction of a new “Grand Entrance” into the University. This Grand Entrance will consist of decorative arched brick walls, including fountains on each side of the entrance way flanked by luscious evergreens and seasonal flowers. Health Services, Engineering Services, Alumni and the Montessori School have been relocated with their previous housing marked for demolition to make way for two new parking lots. These lots, when finished in the spring of 2007 will provide 230 much needed paved parking spaces for general and visitor parking

With a grant from the South Carolina Department of Transportation, additional streetscaping will be completed along Willson, Durst and Stanley streets. This work will be a continuation of the original grant received to add landscaping, bike lanes and rest stops to the entrance boulevard. Plans call for additional sidewalks and sidewalk repairs, rest stops, lighting and plantings.

The University’s food service was re-bid in February with Aramark successfully winning the contract for 7 years. Aramark and Lander have entered into a cooperative agreement that includes the renovation of the existing dining facility and the new construction of an adjoining 3,000 square foot dining area. The project, already underway includes an upgraded HVAC and electrical system, new EST-3 fire alarm system, an outside (open air) concrete dining area, an ADA compliant route to and through the Grier Student Center, new interior flooring, ceiling, lighting, dining furniture, serving stations, and interior décor. The exterior walls will be storefront dark-bronze glass. Substantial demolition of the existing brick patio and stairs will take place. This project is being funded in part by a $500,000 loan/capital investment from Aramark that will be amortized over the 7 year contract period. Other funding sources include Capital Improvement Bonds and the University’s reserves for capital needs

In March 2006, The Lander Foundation purchased, on behalf of the University, Greenwood Shopping Plaza located on Montague Avenue, a mere .10 of a mile from the core campus. The Foundation contracted with McMillan Smith & Partners to deliver architectural renderings showing the property developed into a Wellness, Recreational and Sports Complex. Features of the complex include soccer, baseball and softball fields, twelve tennis courts, two football size practice fields, children’s playground, perimeter walking trail, concession stand, press box, storage and restroom facilities, and an existing wellness facility. Partnerships are currently being developed with city, county and corporate entities; thus allowing the area to be available to the Greenwood community. Plans are to have the property ready for use in the Fall of 2009, allowing time for funding and construction.

LANDER UNIVERSITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	ASSETS	
CURRENT ASSETS		
Cash and cash equivalents	$	10,010,240
Restricted cash and cash equivalents		4,960,859
Accounts receivable - Net of allowance for doubtful accounts of $57,453		723,580
Interest receivable		54,582
Inventories		181,097
Prepaid items		450,544
Total current assets		16,380,902
NONCURRENT ASSETS		
Restricted assets		
Cash and cash equivalents		120,627
Student loans receivable		1,556,587
Capital assets not being depreciated		7,718,629
Capital assets - Net		44,954,472
Total noncurrent assets		54,350,315
Total assets	**$**	**70,731,217**
	LIABILITIES	
CURRENT LIABILITIES		
Accounts and retainages payable	$	699,952
Accrued payroll and related liabilities		599,365
Accrued interest payable		73,111
Long-term liabilities - Current		1,559,085
Other deposits		35,967
Deferred revenues		635,975
Total current liabilities		3,603,455
NONCURRENT LIABILITIES		
General obligation bonds		16,645,000
Premium on bonds		37,945
Revenue bonds		1,105,000
Accrued compensated absences		426,688
Student deposits		64,403
Perkins Loan Program - Federal liability		1,500,859
Total noncurrent liabilities		19,779,895
Total liabilities	**$**	**23,383,350**
	NET ASSETS	
Invested in capital assets, net of related debt	$	39,008,772
Restricted for:		
Expendable:		
Grants and contracts		540,617
Loans		238,405
Capital projects		6,730,776
Debt service		3,381
Unrestricted		825,916
Total net assets	**$**	**47,347,867**

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2006

REVENUES	
Operating revenues	
Student tuition and fees (net of scholarship allowances of $7,230,536)	$ 10,881,314
Federal grants and contracts	3,233,547
State grants and contracts	4,870,169
Nongovernmental grants and contracts	7,103
Sales and services of educational and other activities	349,147
Sales and services of auxiliary enterprises	6,446,306
Other fees	277,604
Other operating revenues	4,905
Total operating revenues	26,070,095
EXPENSES	
Operating expenses	
Compensation	17,239,808
Employee benefits	4,508,935
Supplies and services	9,898,325
Scholarships and fellowships	2,349,206
Depreciation and amortization	2,849,413
Total operating expenses	36,845,687
Operating loss	(10,775,592)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	11,166,034
State grants and contracts	8,767
Private gifts	903,512
Investment income	271,137
Net gain on disposal of assets	60
Interest on capital assets-related debt	(458,039)
Net nonoperating revenues	11,891,471
Income before other revenues, expenses, gains, or losses	1,115,879
Research infrastructure bond proceeds	994,521
Capital improvement bond proceeds	1,716,338
Total capital improvement bond proceeds	2,710,859
Increase in net assets	3,826,738
NET ASSETS, BEGINNING OF YEAR	43,521,129
NET ASSETS, END OF YEAR	**$ 47,347,867**

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 10,861,624
Federal grants and contracts	3,146,410
State grants and contracts	4,868,000
Non-governmental grants and contracts	7,103
Sales and services of educational and other activities	349,147
Auxiliary enterprises	6,466,781
Other fees	277,604
Other operating revenues	4,905
Payments to suppliers	(13,511,322)
Payments to employees	(21,662,333)
New loans to students	(347,107)
Collection of loans	323,374
Net cash used for operating activities	(9,215,814)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	11,166,034
State grants and contracts	8,767
Private gifts	869,699
Net cash provided by noncapital financing activities	12,044,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	8,000,000
Capital appropriations - Capital improvement bond	1,789,022
Capital appropriations - Research infrastructure bond	994,521
Premium on bonds	(2,243)
Proceeds from sale of capital assets	60
Purchases of capital assets	(11,884,554)
Principal paid on debt obligations	(540,000)
Interest paid	(431,300)
Net cash used for capital and related financing	(2,074,494)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	428,185
Net cash provided by investing activities	428,185
Net change in cash and cash equivalents	1,182,377
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,909,349
CASH AND CASH EQUIVALENTS, END OF YEAR (including $5,081,486 restricted cash and cash equivalents)	**$ 15,091,726**
RECONCILIATION	
Operating loss	$ (10,775,592)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation and amortization	2,849,413
Allowance for uncollectible accounts	5,454

(Continued)

LANDER UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2006

RECONCILIATION, Continued

Changes in assets and liabilities:	
Accounts receivable	(143,567)
Inventories	(5,167)
Prepaid items	180,629
Student loans receivable	(23,733)
Payables	(1,268,806)
Deferred revenues	(2,169)
Deposits	51,762
Compensated absences	(84,038)
Cash flows used for operating activities	**$ (9,215,814)**

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
THE LANDER FOUNDATION - A COMPONENT UNIT
STATMENT OF FINANCIAL POSITION
JUNE 30, 2006

	ASSETS	
CURRENT ASSETS		
Cash and cash equivalents	$	179,928
Accounts receivable		7,500
Pledges receivable		428,617
Total current assets		616,045
OTHER ASSETS		
Pledges receivable		547,725
Long-term investments		11,083,714
Investments held for others		201,411
Investments in real estate		850,154
Other investments		2,000
Total other assets		12,685,004
LAND, BUILDINGS AND EQUIPMENT - NET		4,422,983
Total assets	**$**	**17,724,032**
	LIABILITIES	
CURRENT LIABILITIES		
Accounts payable - Related parties	$	37,030
Accounts payable - Other		7,350
Accrued interest		18,638
Funds held for others		201,411
Total current liabilities		264,429
LONG-TERM LIABILITIES		
Long-term debt		3,594,951
	NET ASSETS	
Unrestricted		2,990,353
Temporarily restricted		10,874,299
Total net assets		13,864,652
Total liabilities and net assets	**$**	**17,724,032**

The accompanying notes are an integral part of these financial statements.

LANDER UNIVERSITY
THE LANDER FOUNDATION - A COMPONENT UNIT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

	Unrestricted	Temporarily restricted	Total
REVENUE AND SUPPORT			
Contributions	$ 94,647	$ 982,589	$ 1,077,236
Revenues	-	119,992	119,992
Investment income - Net	143,317	473,722	617,039
	237,964	1,576,303	1,814,267
Net assets released from restrictions			
Satisfaction of restrictions	1,130,488	(1,130,488)	-
Total revenue, support and reclassifications	1,368,452	445,815	1,814,267
PROGRAM EXPENSES			
Scholarships	545,444	-	545,444
Grants and other approved programs	899,768	-	899,768
Total program expenses	1,445,212	-	1,445,212
SUPPORTING SERVICES			
Board approved expenses	32,780	-	32,780
Insurance	10,275	-	10,275
Depreciation	23,469	-	23,469
Interest	69,364	-	69,364
Property expenses	67,985	-	67,985
Professional fees	13,050	-	13,050
Total supporting services	216,923	-	216,923
Total program and supporting services expenses	1,662,135	-	1,662,135
Increase (decrease) in net assets	(293,683)	445,815	152,132
NET ASSETS, BEGINNING OF YEAR	3,284,036	10,428,484	13,712,520
NET ASSETS, END OF YEAR	**$ 2,990,353**	**$ 10,874,299**	**$ 13,864,652**

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Lander University (University) is a State-supported, coeducational institution of higher education. The University's commitment to extending educational opportunities to an array of varying constituencies reflects its belief that citizens of a free society have a right to the enriching benefits of a higher education.

Reporting entity

The University is part of the primary government of the State of South Carolina. Its funds are reported in the higher education enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina.

The financial reporting entity consists of the primary government and its component units. Component units are legally separate organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

The Lander Foundation (Foundation) is a legally separate, tax-exempt component unit of Lander University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a non-governmental component unit of the University and is discretely presented in the University's financial statements.

Complete financial statements for the Foundation can be obtained from the Foundation Office at Stanley Avenue, Greenwood, SC 29649.

Financial Statements

The financial statement presentation for the University meets requirements of *Governmental Accounting Standards Board (GASB)*, Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The financial statement presentation provides a comprehensive, entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows.

Basis of accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

(Continued)

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Cash and cash equivalents

For purposes of the statement of cash flows, the University as well as the Foundation consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

Investments

Investments of the Foundation are carried at fair value. Gains or losses that result from market fluctuation are reported in the current period.

Accounts receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories, which consist of bookstore inventories for resale, are carried at the lower of cost or market. The cost of textbooks is reported on a weighted average basis while the cost of merchandise is reported on a first-in, first-out basis.

Prepaid items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of equipment maintenance contracts and deposits on goods not yet received.

Capital assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements costing $100,000 or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of $5,000 and a useful life in excess of one year. Routine repairs and maintenance and library materials, except individual items costing in excess of $5,000, are charged to operating expenses in the year in which the expense was incurred. In addition, interest related to debt incurred for capital assets is capitalized during the construction period.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

(Continued)

Deferred revenues and deposits

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets. Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the University's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and salary-related employee benefits.

Net assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The University's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The net assets of the Foundation are classified as follows:

Temporarily restricted net assets **-**Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Unrestricted net assets **-**Net assets not subject to donor-imposed restrictions.

(Continued)

Income taxes

The University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

The Foundation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, as amended.

Classification of revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; (3) receipts for scholarships; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Sales and services of educational and other activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from tournaments, student-related activities and workshops.

Sales and services of auxiliary enterprises and internal service activities

Auxiliary enterprise revenues primarily represent revenues generated by housing, food service and bookstore. Revenues of internal service and auxiliary enterprise activities and the related expenditures of University departments have been eliminated.

Scholarship discounts and allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

Generally, deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles the University's deposits and investments within the footnotes to the statement of net assets amounts:

Statement of net assets	
Cash and cash equivalents (current)	$ 14,971,099
Restricted cash and cash equivalents (non-current)	120,627
	$ 15,091,726
Footnotes	
Cash on hand	$ 7,798
Deposits held by State Treasurer	15,083,668
Other deposits	260
	$ 15,091,726

Deposits Held by State Treasurer

State law requires the University to transfer funds to the State Treasurer. Information pertaining to the reported amounts, fair values, credit risk, and policies governing the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Restricted deposits

Restricted cash and cash equivalents of $4,960,859 and $120,627 at June 30, 2006, represent bond proceeds restricted for capital expenditures and cash balances associated with the Perkins Loan Program, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2006, are summarized as follows:

Receivables:	
Student accounts	$ 328,569
Grants and contracts	256,346
Capital improvement bond proceeds	111,371
Due from component unit - The Lander Foundation	36,307
Other	48,440
Gross receivable	781,033
Less: Allowance for uncollectible student accounts	57,453
Receivables, net	**$ 723,580**

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio.

NOTE 4 - RESTRICTED STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise all of the loans receivable as of June 30, 2006. The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the United States Department of Education.

NOTE 5 - CAPITAL ASSETS

	Beginning balance July 1, 2005	Increases	Decreases	Ending balance June 30, 2006
Capital assets not being depreciated:				
Land and improvements	$ 2,621,224	$ -	$ -	$ 2,621,224
Construction in progress	10,939,064	11,664,664	17,589,803	5,013,925
Art and historical collections	83,480	-	-	83,480
Total capital assets not being depreciated	13,643,768	11,664,664	17,589,803	7,718,629
Other capital assets:				
Land improvements	152,579	-	-	152,579
Buildings and improvements	50,897,905	17,589,803	-	68,487,708
Machinery, equipment, and other	2,034,931	205,498	30,987	2,209,442
Vehicles	411,383	14,392	-	425,775
Intangibles	1,417,757	-	-	1,417,757
Total other capital assets at historical cost	54,914,555	17,809,693	30,987	72,693,261
Total capital assets	68,558,323	29,474,357	17,620,790	80,411,890
Less accumulated depreciation for:				
Land improvements	140,372	6,103	-	146,475
Buildings and improvements	22,038,271	2,417,302	-	24,455,573
Machinery, equipment, and other	1,653,482	143,805	30,987	1,766,300
Vehicles	310,627	48,345	-	358,972
Intangibles	777,611	233,858	-	1,011,469
Total accumulated depreciation	24,920,363	2,849,413	30,987	27,738,789
Capital assets, net	**$ 43,637,960**	**$ 26,624,944**	**$ 17,589,803**	**$ 52,673,101**

The net gain on disposal of assets consisted of the following:

Gains on disposals	$ 60
Losses on disposals	-
Net gain on disposals	**$ 60**

Interest charged to expense totaled $460,282 for the year ended June 30, 2006. Interest capitalized totaled $207,994.

NOTE 6 - PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

(Continued)

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Employees participating in the SCRS are required to contribute 6.25 percent of all compensation. The employer contribution rate is 10.80 percent which includes a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2006, 2005 and 2004 were $901,801, $872,354 and $823,082, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $17,454 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees participating in the PORS are required to contribute 6.5 percent of all compensation. The employer contribution rate is 13.55 percent which, as for the SCRS, includes the 3.25 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2006, 2005 and 2004, were $37,008, $34,300 and $32,448, respectively, and equaled the required contributions of 10.30 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of $719 and accidental death insurance contributions of $719 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

(Continued)

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.25 percent from the employer in fiscal year 2005.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were $231,147 (excluding the surcharge) from the University as employer and $199,265 from its employees as plan members. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Effective July 1, 2006, TERI participants who entered the program before July 1, 2005 do not have to contribute to SCRS as long as they are covered under the TERI program.

NOTE 7 - POST EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

(Continued)

NOTE 7 - POST EMPLOYMENT AND OTHER EMPLOYEE BENEFITS, Continued

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 84,420 State retirees and beneficiaries meet these eligibility requirements.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of $1,285,872 for the year ended June 30, 2006. The University paid $378,175 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 8 - LITIGATION, CONTINGENCIES AND PROJECT COMMITMENTS

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has $2,266,356 of authorized state capital improvement bond proceeds available to draw at June 30, 2006.

At June 30, 2006, the University had commitments for capital projects with outstanding balances totaling $1,958,468. The commitments include architectural, engineering and construction costs associated with the Grier Center of $5,365,126 with $1,697,760 outstanding; Jackson Library Roof of $444,306, with $146,079 outstanding; Main Entrance engineering and design cost of $107,734 with $36,629 outstanding; and Lide Housing Renovation design cost of $240,000 with $78,000 outstanding.

The University is a party to various litigation as a defendant, arising from its normal operations. Management does not anticipate material losses in connection with these claims.

NOTE 9 - LEASE OBLIGATIONS

Commitments for operating leases with external parties having remaining noncancelable terms in excess of one year as of June 30, 2006 were as follows:

Year ended June 30,	Equipment	Real property
2007	$ 38,590	$ 1
2008	38,590	1
2009	36,130	1
2010	18,155	1
2011	3,555	1
2012 - 2046	-	34
Total minimum lease payments	$ 135,020	$ 39

Operating Leases

The University's noncancelable operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. Total rental payments for fiscal year 2006 were $188,650, including regular payments of $118,933 and contingent payments, on a per copy basis, of $69,717.

The University entered into an operating lease with the County of Greenwood for property to be used by the University's athletic programs. The lease has an annual rental rate of one dollar and expires June 30, 2046. The University is responsible for all maintenance of the property. The lessor may continue to use the property rent-free for three months each year.

NOTE 10 - BONDS PAYABLE

At June 30, 2006, bonds payable consisted of the following:

$8,000,000 general obligation bonds issued December 2005 and due in annual installments of $275,000 to $580,000 through 2026, with interest at 4% to 5%.	$ 8,000,000
$10,000,000 general obligation bonds issued June 2004 and due in annual installments of $355,000 to $735,000 through 2024, with interest at 3.00% to 5.00%.	9,285,000
$2,000,000 revenue bonds issued May 2002 and due in annual installments of $165,000 to $255,000 through 2012, with interest at 4.70%. Auxiliary enterprise revenues are pledged as security for the bonds.	1,300,000
	$ 18,585,000

The scheduled maturities of bonds payable are as follows:

Year ending June 30,	General obligation bonds Principal	General obligation bonds Interest	Revenue bonds Principal	Revenue bonds Interest	Total bonds Principal	Total bonds Interest
2007	$ 640,000	$ 748,256	$ 195,000	$ 61,100	$ 835,000	$ 809,356
2008	660,000	723,306	200,000	51,935	860,000	775,241
2009	685,000	693,806	210,000	42,535	895,000	736,341
2010	700,000	667,981	215,000	32,665	915,000	700,646
2011	725,000	638,256	225,000	22,560	950,000	660,816
2012 - 2016	4,075,000	2,714,863	255,000	11,985	4,330,000	2,726,848
2017 - 2021	5,040,000	1,779,978	-	-	5,040,000	1,779,978
2022 - 2026	4,760,000	521,988	-	-	4,760,000	521,988
	$17,285,000	$ 8,488,434	$ 1,300,000	$ 222,780	$ 18,585,000	$ 8,711,214

(Continued)

NOTE 10 - BONDS PAYABLE, Continued

Proceeds of the general obligation bonds are being used for the construction of a new residence hall facility and renovation of existing residence hall facilities.

NOTE 11 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006 was as follows:

	June 30, 2005	Additions	Reductions	June 30, 2006	Current portion
Bonds/notes/installment purchase					
General obligation bonds	$ 9,640,000	$ -	$ 355,000	$ 9,285,000	$ 365,000
Unamortized premiums	42,431	-	2,243	40,188	2,243
General obligation bonds	-	8,000,000	-	8,000,000	275,000
Total general obligation bonds payable	9,682,431	8,000,000	357,243	17,325,188	642,243
Revenue bond	1,485,000	-	185,000	1,300,000	195,000
Total debt	11,167,431	8,000,000	542,243	18,625,188	837,243
Other liabilities					
Compensated absences	1,070,436	465,001	549,039	986,398	559,710
Student deposits	205,844	140,961	120,270	226,535	162,132
Perkins Loan - Federal liability	1,495,026	5,833	-	1,500,859	-
Total other	2,771,306	611,795	669,309	2,713,792	721,842
Total long-term liabilities	**$ 13,938,737**	**$ 8,611,795**	**$ 1,211,552**	**$ 21,338,980**	**$ 1,559,085**

NOTE 12 - COMPONENT UNIT

As discussed in Note 1, The Lander Foundation is a separately chartered corporation organized exclusively to promote the development and welfare of the University. The Foundation has been included as a component unit, but because it is a nongovernmental entity, it uses a different reporting model and its balances and transactions are reported on separate financial statements. During the year ended June 30, 2006, the University received approximately $636,000 from the Foundation for restricted scholarships. The University also received approximately $281,000 from the Foundation for various approved programs related to academic and administrative areas within the University. At June 30, 2006 the University had a $2,494 receivable from the Foundation.

During the year ended June 30, 2006, the Foundation purchased land for future development purposes. The land was purchased through a note payable with a bank in the amount of $3,594,951, payable in monthly interest only payments at 6.75% with the principal balance due in March 2009.

A summary of the Foundation's investments at June 30, 2006 follows:

Pooled investments	Fair value
Temporarily restricted cash investments	$ 2,299,506
Government and corporate bonds	2,406,238
Common stocks	5,617,461
Common trust funds	961,920
	11,285,125
Less: Investments held for others	(201,411)
	$ 11,083,714

NOTE 13 - RELATED PARTIES

The Lander Alumni Association is a separately chartered legal entity whose activities are related to those of the University and exists primarily to provide financial assistance and other support to the University and its educational programs. The Alumni Association, which has assets of less than $2,000,000, was established by alumni to promote academic improvements, to assist in scholarship programs, to further the interests of the University and to promote among its present and former students and friends good fellowship and loyalty. The Alumni Association's financial statements were internally compiled by the Association's management and are not presented in these financial statements.

NOTE 14 - RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

Unemployment compensation benefits
Worker's compensation benefits for job-related illnesses or injuries
Health and dental insurance benefits
Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan. All other coverage listed above are through the applicable State self-insured plan. Dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

Business interruptions
Theft, damage to, or destruction of assets
Real property, its contents, and other equipment
Motor vehicles
Torts
Natural disasters
Medical malpractice claims against the Infirmary
Inland marine
Builders construction risk

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

(Continued)

NOTE 14 - RISK MANAGEMENT, Continued

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for losses arising from dishonest or fraudulent acts, limited to $100,000 for dishonesty, $50,000 for forgery or alteration, and $5,000 from theft, disappearance, and destruction. The University also obtains coverage through a commercial insurer for medical insurance covering student athletes.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, underinsurance, and co-insurance for any covered losses to a state or commercial insurer.

NOTE 15 - INFORMATION FOR INCLUSION IN THE STATE GOVERNMENT - WIDE COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

The University's transactions are reported in the Higher Education Fund, an enterprise fund, of the State of South Carolina. The following is information needed to present the University's business-type activities in the State's government-wide Statement of Activities.

	2006	2005	Increase/ (decrease)
Charges for services	$ 26,065,190	$ 24,323,982	$ 1,741,207
Operating grants and contributions	1,188,381	1,332,548	(136,737)
Less: Expenses	(37,303,726)	(34,925,159)	(2,385,996)
Net program expense	(10,050,155)	(9,268,629)	(781,526)
Transfers			
State appropriations	11,166,034	9,828,270	1,337,764
Capital improvement bond proceeds	2,710,859	469,550	2,241,309
Total general revenue and transfers	13,876,893	10,297,820	3,579,073
Change in net assets	3,826,738	1,029,191	2,797,547
Net assets, beginning of year	43,521,129	42,491,938	1,029,191
Net assets, end of year	**$ 47,347,867**	**$ 43,521,129**	**$ 3,826,738**

Tuition fees, as defined by South Carolina Code of Laws Section 59-107-90, were $13,712,553 for the year ended June 30, 2005.

NOTE 16 - TRANSACTIONS WITH STATE ENTITIES

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the year ended June 30, 2006:

Original appropriation per Annual Appropriations Act	$ 9,271,031
Adjustment for base pay	424,835
Supplemental appropriation - Jackson Library	1,000,000
From Commission on Higher Education	
Academic Endowment	13,910
Technology Grant	456,258
Total state appropriations	**$ 11,166,034**

(Continued)

NOTE 16 - TRANSACTIONS WITH STATE ENTITIES, Continued

Capital improvement bond proceeds received during the year	$ 2,783,543
Amounts recognized as a receivable in prior year	(184,055)
Amounts recognized as a receivable in current year	111,371
Amounts recognized as revenue in current year	$ 2,710,859

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond trustee and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

Other services received at no cost from various offices of the State Budget and Control Board include pension plan administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the budget, review and approval of certain budget amendments, procurement services and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contribution, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2006 expenditures applicable to related transactions with state entities are not readily available.

NOTE 17 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2006 are summarized as follows:

	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 10,600,297	$ 543,889	$ -	$ -	$ 11,144,186
Research	10,833	19,681	-	-	30,514
Public service	198,999	354,119	-	-	553,118
Academic support	1,650,237	1,658,580	-	-	3,308,817
Student services	2,739,303	1,046,727	-	-	3,786,030
Institutional support	2,811,087	553,330	-	-	3,364,417
Operation and maintenance of plant	3,083,800	1,340,178	-	-	4,423,978
Scholarships and fellowships	733	68,024	2,349,206	-	2,417,963
Auxiliary enterprises	653,454	4,313,797	-	-	4,967,251
Depreciation	-	-	-	2,849,413	2,849,413
Total operating expenses	$ 21,748,743	$ 9,898,325	$ 2,349,206	$ 2,849,413	$ 36,845,687

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. Richard H. Gilbert, Jr., CPA, Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of Lander University as of and for the year ended June 30, 2006, and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered Lander University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or error in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether Lander University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Governor and the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

August 30, 2006

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Richard H. Gilbert, Jr., CPA, Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of Lander University with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2006. Lander University's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of Lander University's management. Our responsibility is to express an opinion on Lander University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Lander University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lander University's compliance with those requirements.

In our opinion, Lander University complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2006.

Internal control over compliance

The management of Lander University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Lander University's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governor and the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

August 30, 2006

LANDER UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal grantor/ Pass-through grantor/ Program title	Federal CFDA number	Pass through grantor's number	Total expenditures
UNITED STATES DEPARTMENT OF EDUCATION			
Direct Programs:			
Federal Supplemental Educational Opportunity Grant	84.007		$ 160,185
Federal Work-Study Program	84.033		117,887
Federal Perkins Loan Program	84.038		68,024
Federal Pell Grant Program	84.063		2,577,992
Improvement of Postsecondary Education	84.116		86,574
Student Support Services	84.042A		169,286
Total direct programs			3,179,948
Passed through South Carolina Commission on Higher Education:			
Gaining Early Awareness and Reading for Undergraduate Programs	84.334	P334A990172-06	25,162
Gaining Early Awareness and Reading for Undergraduate Programs	84.334A	P334A990172-07	48,675
Total Commission on Higher Education			73,837
Total U.S. Department of Education			3,253,785
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		16,194
Total U.S. Department of Health and Human Services			16,194
Total Federal assistance expended			**$ 3,269,979**

Note 1 The accompanying schedule of expenditures of federal awards includes the federal grant activitity of Lander University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 Lander University had the following loan balances outstanding at June 30, 2006. These loan balances outstanding are also included in the statement of net assets.

Cluster/Program Title	Federal CFDA Number	Amount outstanding
Federal Perkins Loan Program	84.038	$ 1,556,587

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Lander University.

2. No reportable conditions relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.

3. No instances of noncompliance material to the financial statements of Lander University were disclosed during the audit.

4. No reportable conditions relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.

5. The auditor's report on compliance for the major federal award program for Lander University expresses an unqualified opinion.

6. The programs tested as major programs include:

Federal Pell Grant Program	84.063
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038

7. The threshold for distinguishing Types A and B programs was $300,000.

8. Lander University qualifies as a low-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

LANDER UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2006

In accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States, the following is the status of known material findings and recommendations from prior year audits:

None